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# BARBER-GREENE ANNUAL REPORT 1971





#### **DIRECTORS**

H. A. BARBER, *Chairman*

EDWARD McC. BLAIR, *Managing Partner*, William Blair & Company,  
Chicago, Illinois

ANTHONY S. GREENE, *President*

WILLIAM A. GREENE, *Vice President, Secretary*

URBAN HIPP, *Vice President, Treasurer*

EDWARD H. HOLT, *Vice President*

ANDREW L. PONTIUS, *Director*, Square D Company,  
Palatine, Illinois

JOHN C. REID, *Partner in Law Firm of*  
Ivins, Phillips & Barker, Washington, D. C.

#### **OFFICERS**

H. A. BARBER, *Chairman*

ANTHONY S. GREENE, *President and Chief Executive Officer*

WILLIAM A. GREENE, *Vice President and Secretary*  
Administration

URBAN HIPP, *Vice President and Treasurer*  
Finance

EDWARD H. HOLT, *Vice President*

FRANK J. MERRILL, *Vice President*  
International

MERRILL E. OLSON, *Vice President*  
Sales

JAKE R. SMITH, *Vice President*  
General Manager, TelSmith Division

JAMES E. WAGNER, *Vice President*  
Operations

#### **DIVISIONS**

**Barber-Greene Overseas**  
Aurora, Illinois

**TelSmith**  
Milwaukee, Wisconsin

#### **WHOLLY-OWNED SUBSIDIARIES**

**Barber-Greene Americas, Inc.**  
Aurora, Illinois

**Barber-Greene Australia Pty. Limited**  
Sydney, Australia

**Barber-Greene Canada Limited**  
Don Mills, Ontario

**B-G-S Engineering, Inc.**  
Chicago, Illinois

#### **OTHER SUBSIDIARIES**

**Barber-Greene do Brasil Ind. e Com. S/A**  
Sao Paulo, Brazil

**Barber-Greene England Limited**  
Bury St. Edmunds, England

**Barber-Greene Europa, N.V.**  
Zwolle, The Netherlands

**Barber-Greene de Mexico, S.A.**  
Mexico, D.F., Mexico

#### **TRANSFER AGENT**

FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILLINOIS

#### **REGISTRAR**

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST CO.,  
CHICAGO, ILLINOIS

## **BARBER-GREENE COMPANY**

ANNUAL STOCKHOLDERS' MEETING  
400 N. Highland Avenue, Aurora, Illinois  
2:30 p.m. Chicago Time  
Friday, January 28, 1972

## HIGHLIGHTS

	FISCAL YEAR ENDED	
	August 28, 1971	August 29, 1970**
<b>Net Sales</b> .....	<b>\$78,368,666</b>	<b>\$76,457,579</b>
Earnings before extraordinary credits.....	\$ 452,501	\$ 911,081
Extraordinary credits.....	89,000	74,875
<b>Net Earnings</b> .....	<b>541,501</b>	<b>985,956</b>
Earnings per share*		
Earnings before extraordinary credits..	.44	.90
Extraordinary credits.....	.09	.07
Net Earnings.....	.53	.97
Stockholders' equity.....	31,204,129	30,662,628
Book value per share*.....	30.74	30.20
Working capital.....	37,146,426	30,420,276
Additions to plant and equipment .....	1,344,312	2,252,783
Depreciation .....	1,359,670	1,305,892
Number of employees.....	3,203	3,513
Number of stockholders.....	2,300	2,408

\*Per share figures are based on the weighted average number of shares outstanding in each year. This weighted number of shares outstanding was 1,015,178 during fiscal 1971 and 1970.

\*\*As restated (See Note A to financial statements on page 17)

## TO THE STOCKHOLDERS OF BARBER-GREENE



H. A. BARBER  
CHAIRMAN



A. S. GREENE  
PRESIDENT

Net sales for fiscal 1971 were \$78,368,666 compared to 1970's \$76,457,579, an increase of 2.5% while net earnings were \$541,501, or 53 cents per share compared to \$985,956 (97 cents per share) in the prior year.

The above sales and earnings reflect the consolidation of international subsidiaries by combining the statement of earnings and the balance sheet accounts, eliminating the effects of inter-company transactions, and deducting from the net earnings and equity the proportional interest of minority stockholders in those subsidiaries. Simultaneously, net sales have been restated to include only revenue of actual billings by the company. Our prior method stated net sales at the level of resale by our independent dealers, and the discount allowed by us was shown as an item of expense.

### Reporting by Groups

While the company's business is unitary, we have shown in the charts below the relative growth of sales from the United States and Canada Operations and from our International Operations. We have also shown the trends of our significant product groupings from the United States and Canada for the past five years.

### UNITED STATES AND CANADA OPERATIONS

While shipments for the United States and Canada operations were approximately 3% greater than 1970, the incoming order pattern for civilian machines during 1971 was 9% ahead, with particular strength being shown in Asphalt Construction Equipment. Total backlog at the end of our year increased approximately 17% over the prior year end, although it is traditionally at a low level at this time of year.

Our cost of sales ratio continued as our most serious problem. New product designs as discussed below will assist in cost improvement. The inventory control and production planning techniques now on line will also provide considerable assistance with more balanced flow through the factory. Several management changes within our manufacturing areas have been made to achieve improved management control at reduced cost.

Our cost of sales has been penalized by the fact that our inventory is accounted for on the LIFO (last in—first out) principle, rather than the FIFO (first in—first out) principle. This LIFO method of accounting, while conservatively valuing our inventory, does reflect in higher cost of sales, and therefore poorer earnings. Most companies in our industry now use the FIFO method. We have elected, and approval has been given by the Internal Revenue Service to change from LIFO to FIFO effective in fiscal year 1972. We urge each shareholder to carefully read footnote C of the financial statement.

Price increases were introduced in the fall of 1970 and were believed to be higher than the anticipated inflationary increases, thus improving our profit. The combination of intensive competition and rapid material cost increases more than offset the planned improvements, however. Price increases were also announced in August of this



year, but have been delayed and the magnitude of the increase will now be more moderate than originally announced.

Labor contracts for the Aurora and DeKalb plants expired recently and have been temporarily extended due to the new wage control policies. Contracts in Milwaukee and Toronto each have another year before they expire.

Our United States and Canada debt has been restructured by a new \$6,000,000 term loan negotiated with our three major banks last spring. The most satisfying achievement of the past year was the reduction of debt in the United States and Canada by \$3,000,000 accomplished through stringent control of our cash resources and tighter control of inventory. Emphasis will be continuing in this area and further improvements are planned.

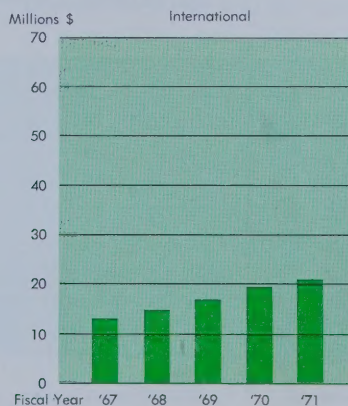
Last year we reported that the Canadian plant was sold and that we would move prior to December, 1972. Construction of a new facility of approximately 45,000 square feet has been auth-

orized in an outlying area of Toronto. We expect to achieve overall operating economies both from location and from a facility closely geared to the needs of the Canadian market. It is anticipated that this construction and move will be accomplished from the proceeds of the sale of the original building.

### Product Development

During the year special emphasis was placed on a thorough analysis of each class of product to ensure that efforts were being expended for optimum return. Action during the year included major product development concentrated on our principal products, acquisition of a small hydrostatic finisher complementary to our own line of machines, and a sale of marketing rights, design and inventory associated with foundry sand coating applications. Also, several marketing arrangements were concluded with other manufacturers of complementary components which resulted in significant added sales volume and profit contribution.

### NET SALES



Product development expense was at an all time high. This design activity, while concentrating on reduced cost of manufacture, will permit major new product introductions in 1972, including several new models of asphalt finishers, a new series of high capacity asphalt mixing plants, a new family of portable conveyors which hold promise for significantly reduced costs, and a new crusher model. Continued design effort was also invested in the Excavator, the high capacity earthmoving machine that has been under development for the past few years, directed to reduce the maintenance cost of the machine and to permit more economical servicing of the unit. Sustained operating experience was achieved on six Excavators operated by contractors on large earthmoving projects and field interest continues very high for these machines.

The above steps are highlighted to signify the policy that is being aggressively pursued by the company to ensure logical product and market

expansion by either internal development or external acquisition, and the willingness to discontinue products no longer deemed profitable.

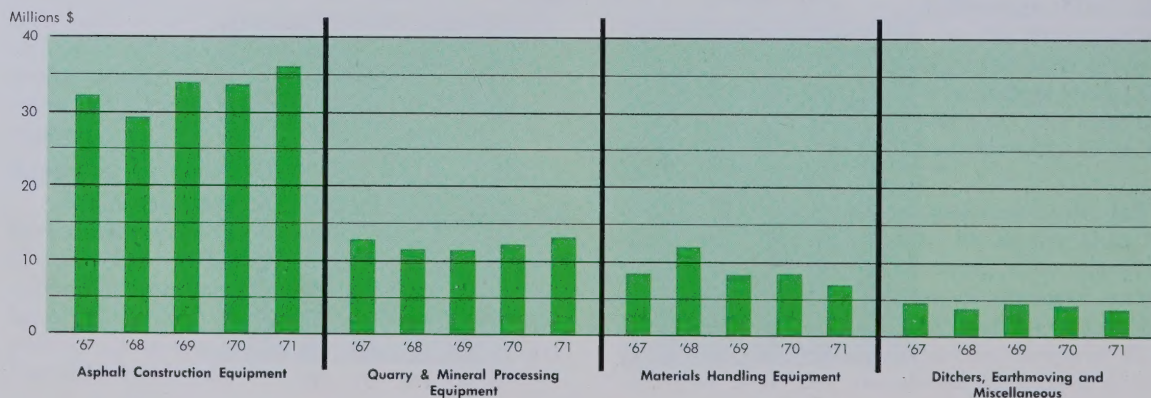
#### INTERNATIONAL OPERATIONS

The financial results of the following international subsidiaries have been consolidated in this report:

- Barber-Greene England Limited—Bury St. Edmunds, England
- Barber-Greene Europa, N. V.—Zwolle, The Netherlands
- Barber-Greene do Brasil, Industria e Comercio S/A—Sao Paulo, Brazil
- Barber-Greene Australia Pty. Ltd.—Sydney, Australia
- Barber-Greene de Mexico—Mexico City, Mexico

Sales from Barber-Greene England were approximately the same as for the prior year, but at a reduced profit level. Plans are under way for the

SALES BY PRODUCT GROUPING FOR U. S.—CANADA OPERATIONS





introduction of the new asphalt finisher models discussed above as quickly as possible. There is normally an approximate six month lag between introduction from the U. S. and introduction from England, but efforts are being made to substantially reduce this. In line with major management changes reported last year, management is continuing to strengthen.

The closer integration of Barber-Greene Europa with Barber-Greene England has been successfully concluded with resultant major reduction in overhead. This change, coupled with improved coordination of overall planning for the European market should permit significantly improved operations for both Barber-Greene England and Barber-Greene Europa.

England's entry into the European Common Market should provide new growth opportunity for us in this important market in the years ahead.

Barber-Greene do Brasil concluded another outstanding year, with major increases in the Quarry and Mineral Processing Equipment fields due to the expansion of facilities and equipment concluded in the prior year. Further expansion of these facilities is now being planned, with construction to start on a 45,000 square foot building addition early in 1972. While Barber-Greene Company has owned approximately 90% of this subsidiary, this new expansion program and required additional working capital will be financed through a public offering of Barber-Greene do Brasil stock in Brazil in the amount of approximately \$1,300,000, reducing our percentage of ownership in the expanded company to approximately 67%. The Government of Brazil offers tax incentives to Brazilian publicly owned companies for which we will now become eligible. Engineering fees will continue to be paid to the parent corporation on the total operations, including the expanded capability.

Barber-Greene Australia has been able to convert a higher sales level into a reasonable profit contribution. This subsidiary handles all of its manufacturing through local subcontractors. The demand for improved highways in Australia continues strong, and we expect a continuation of the level of activity now being enjoyed.

Barber-Greene Mexico is still in an inactive status, as discussed last year, with the manufacture and sale of products for the Mexican market conducted through a licensee.

While not included in consolidated earnings except through "other income" provided by license fees, our Telsmith licensee activity in England, France, Spain, South Africa, and Australia, in addition to Mexico, has been significant.

#### **1972 OUTLOOK**

Even though the first eight weeks of this new fiscal year have occurred during a period of unusual economic uncertainty and are traditionally our slower periods, both orders and shipments have been most satisfactory, showing significant gains in our major product classes. United States and Canada shipments for the first two periods are approximately \$1,000,000 ahead of last year, a gain of some 15%, and backlog has shown major improvement. However, this is normally a volatile period and these gains do not necessarily reflect a trend throughout the year.

The current news regarding international monetary upheavals and more rigid business controls at home is disturbing, as much from the uncertainty of conditions as from the actual impact of these new measures. The increasing tempo of our business in the latter months of last year, coupled with the trend in the earlier months of this new year give us confidence, however, in spite of the abnormal level of current unknowns. We only trust that the new economic rules will be

clarified soon to again return a measure of stability to the economy—and hopefully with reduced inflation at home and more equality in world trade.

We believe that the basic strengths of the markets we serve coupled with our extensive world-wide capability will permit us to react quickly and favorably to the unfolding events. As a consequence, we are generally optimistic at the outlook for 1972, but are continuing our efforts to reduce and control cost, and to strengthen our

position in the market through an aggressive development program.

#### MANAGEMENT CHANGES

During the year, both J. D. Turner, Vice President, Publicity and Promotion, and J. F. Vogel, Assistant Secretary, retired after long and distinguished careers at Barber-Greene. Their services will be sorely missed. In other management changes, F. J. Merrill became Vice President, In-

## TEN YEAR REVIEW\*

IN THOUSANDS OF DOLLARS

YEAR	1971	1970	1969	1968	1967
NET SALES.....	\$78,369	\$76,458	\$72,765	\$69,662	\$69,608
EARNINGS FROM OPERATIONS....	736	2,067	2,115	3,429	5,373
NET EARNINGS.....	542 <sup>(4)</sup>	986 <sup>(4)</sup>	979	1,431 <sup>(3)</sup>	2,661
CASH DIVIDENDS DECLARED.....	—	—	1,015	1,014	999
STOCKHOLDERS' EQUITY.....	31,204	30,663	29,677	29,713	29,186
WORKING CAPITAL.....	37,146	30,420	30,355	31,301	31,243
NET PROPERTIES.....	14,061	14,113	14,478	14,124	14,079
ADDITIONS TO PROPERTIES.....	1,344	2,253	1,682	1,637	1,945
PROVISION FOR DEPRECIATION...	1,360	1,306	1,255 <sup>(2)</sup>	1,518	1,479
PER SHARE OF COMMON STOCK NET EARNINGS.....	.53	.97	.96	1.41	2.67
CASH DIVIDENDS.....	—	—	1.00	1.00	1.00
BOOK VALUE.....	30.74	30.20	29.23	29.27	28.92

(1) A 10% stock dividend was declared in 1966 in addition to the cash dividend. Per share data reflects the stock dividend on a retroactive basis.

(2) Depreciation methods changed to straight-line in 1969.

(3) After extraordinary charge of \$162,345 resulting from currency devaluation in Great Britain.

(4) Includes extraordinary credits of \$89,000 in 1971 and \$74,875 in 1970 arising principally from the sale of the Canadian Plant and related tax effects.

\*Restated to reflect change in reporting entity, classification of trade notes receivable due beyond one year and sales of distributors' discounts (See Note A to financial statements on page 17).



ternational Operations, a change from his former position as Vice President, Operations, and J. E. Wagner became Vice President, Operations. His former position was Aurora-DeKalb Division Manager. Effective August 29, 1971, A. S. Greene became President and Chief Executive Officer, with H. A. Barber continuing as Chairman.

We have been extremely fortunate in having a competent, loyal group of directors, officers and employees. We have undergone many changes

within the organization which the group has generally been able to assimilate with enthusiasm and we firmly believe that these efforts will be successful.

  
CHAIRMAN

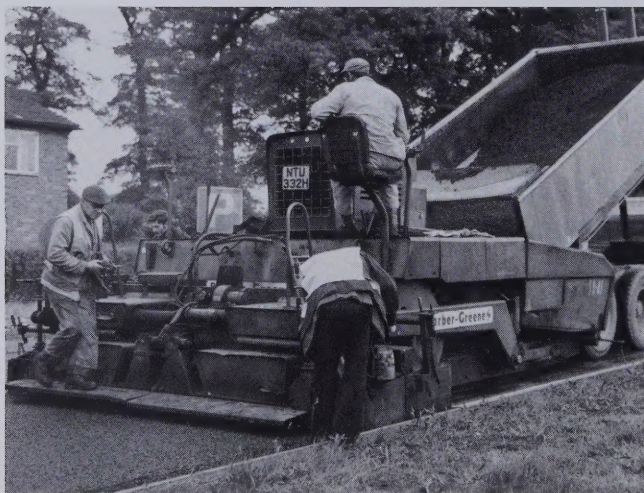
  
PRESIDENT

November 22, 1971

1966	1965	1964	1963	1962
\$62,162	\$53,559	\$50,195	\$46,141	\$42,334
5,197	3,606	4,357	3,526	3,341
2,507	1,742	1,966	1,500	1,203
905 <sup>(1)</sup>	905	796	760	760
27,245	25,644	24,807	23,636	22,897
27,181	25,807	26,633	21,690	21,088
13,499	12,641	12,386	12,208	11,834
2,324	1,746	1,330	1,406	1,553
1,374	1,265	1,102	1,023	959
2.52	1.75	1.98	1.51	1.21
.91	.91	.88	.84	.84
27.38	25.77	24.93	23.75	23.01

## PICTORIAL REVIEW

A number of these extra-long radial stackers have been sold in the last few years to provide the unusually large bulk storage capacities required in many mining and processing applications. This 253-ft. unit, installed during the year, stockpiles 3,200 tons of copper molybdenum ore per hour at a mine in Arizona.



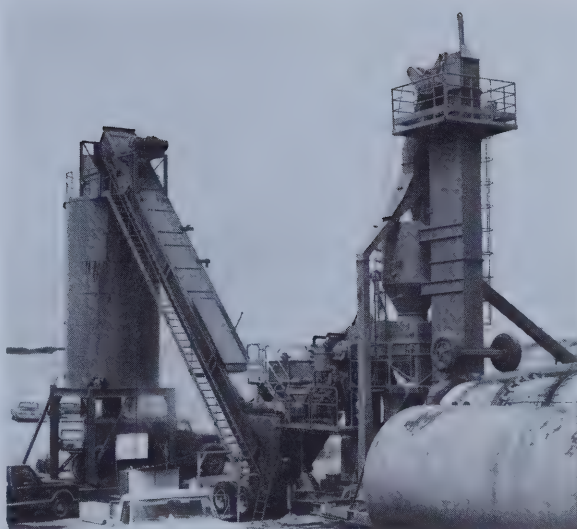
During the coming year, several new models will be added to the line of asphalt finishers produced in England for the European market. This British-built finisher is placing experimental materials on a highway in England for a research project sponsored by the Ministry of Transport and Road Research Laboratory.

Large granite quarry in Brazil is equipped with Barber-Greene and TelSmith equipment manufactured by Barber-Greene do Brasil. Included are a feeder, primary jaw crusher, two GyroSphere crushers, and a number of screens and belt conveyors. Sales of aggregate plant components, including exports to other South American countries, have been an important factor in the Brazilian subsidiary's increasing volume and profitability.

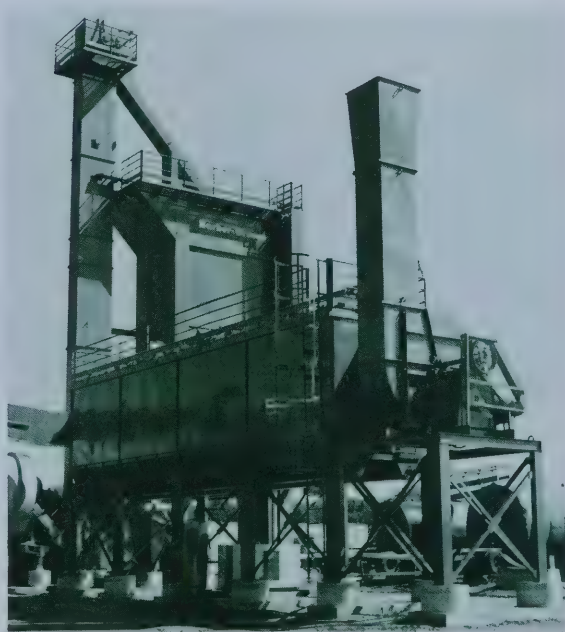




The flexibility of Barber-Greene asphalt equipment to meet design trends in the various states is illustrated by this continuous plant for producing asphaltic base materials. It utilizes a newly designed aggregate proportioning hopper mounted over the pugmill and a surge storage system for fastest loading of trucks.



Construction of a water cooling pond at a nuclear power plant was facilitated by this Barber-Greene ditcher, shown digging vertical sidewalls for intake and outlet canals. Use of the ditcher, instead of blasting, gave increased accuracy and allowed work to be done close to the power plant, where explosives could not be used. Machine is working in rock which had been exposed after removal of top-soil and clay.



Up to 99.9% of the dust in the dryer exhaust is captured by these new fabric filter collectors. They provide optimum efficiency in combating air pollution from asphalt plant drying operations and at the same time can often increase plant profitability by reclaiming valuable fine material that is lost in other types of collection equipment. These units are applicable to pollution control efforts now underway to comply with increasingly stringent regulations relating to quarry operations and similar requirements.

Barber-Greene Excavators were selected for three of the largest and most spectacular earth-moving projects currently underway in the U. S., with two machines working at each location. Their performance on a sustained production basis has confirmed that the design changes made in the last two years have significantly reduced downtime and maintenance costs. One of these machines incorporates a newly designed single wide wheel which appears to offer even greater maintenance economy with the same capacity potential.



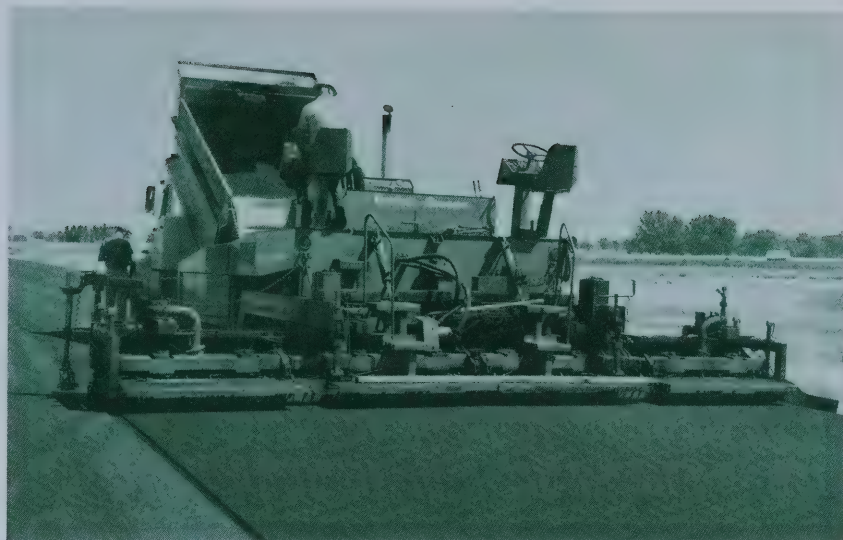
Stockpiling and reclaiming systems in which the Barber-Greene Continuous Reclaimer is a key component represent a major step forward in bulk material handling efficiency, and the Reclaimer has been an important factor in sales of several large systems. This installation, at a major shiploading terminal on Lake Erie in Ohio, began operation this year.

One of the emerging solutions to urban mass transit problems includes such new developments as the use of exclusive bus lanes for high-speed public transportation to and from the inner city. Standard Barber-Greene paving equipment is utilized for construction work of this type.





Besides setting new production records, the Model SB-50 asphalt finisher, introduced two years ago, has achieved a high degree of acceptance for both wide-width and thick-lift paving applications which formerly required two or more machines. Its outstanding performance in the normal width and thickness ranges also gives contractors a new degree of flexibility in matching the finisher to the job.



A Telsmith portable aggregate plant produced by our licensee in Mexico awaits shipment from plant. Gyrasphere crusher and screen head were manufactured by the Telsmith Division in Milwaukee, while remainder of plant was produced locally.

One of the first products resulting from the Value Engineering Program held during the year is this completely new series of portable belt conveyors. These units offer an outstanding combination of features at an economical price and make possible a new degree of production efficiency with minimum inventory. Optional folding head and tail ends permit fast towing between jobs. Photo shows hinged head section being lifted into operating position.



# CONSOLIDATED STATEMENTS OF

## EARNINGS AND RETAINED EARNINGS

### STATEMENTS OF EARNINGS

	FISCAL YEAR ENDED	
	August 28, 1971	August 29, 1970
<b>Revenues:</b>		
Net sales.....	\$78,368,666	\$76,457,579
Other income (Note H) .....	1,381,121	1,136,405
	<u>79,749,787</u>	<u>77,593,984</u>
<b>Costs and Expenses:</b>		
Cost of goods sold.....	60,864,430	58,143,828
Selling, administrative and product development.....	15,991,614	15,122,472
Interest .....	2,157,417	2,261,031
	<u>79,013,461</u>	<u>75,527,331</u>
Earnings from operations .....	736,326	2,066,653
Provision for income taxes (Note I).....	(9,000)	874,000
	<u>745,326</u>	<u>1,192,653</u>
Minority interests.....	292,825	281,572
Earnings before extraordinary credits.....	452,501	911,081
Extraordinary credits (Note J).....	89,000	74,875
Net earnings.....	<u>\$ 541,501</u>	<u>\$ 985,956</u>
Earnings per share of common stock (Note L):		
Earnings before extraordinary credits.....	\$ .44	\$ .90
Extraordinary credits.....	.09	.07
Net earnings.....	<u>\$ .53</u>	<u>\$ .97</u>

### STATEMENTS OF RETAINED EARNINGS

Retained earnings beginning of year:		
As previously reported.....	\$21,323,222	\$20,729,693
Adjustment (Note A).....	1,908,475	1,516,048
As restated.....	23,231,697	22,245,741
Net earnings.....	541,501	985,956
Retained earnings end of year.....	<u>\$23,773,198</u>	<u>\$23,231,697</u>

The notes on pages 17 and 18 are an integral part hereof.



# CONSOLIDATED BALANCE SHEETS

	August 28, 1971	August 29, 1970
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash.....	\$ 3,940,413	\$ 4,529,457
Trade receivables (Note D).....	18,866,484	19,190,312
Refundable income taxes.....	1,034,900	859,765
Inventories, at the lower of cost or market (Note C).....	31,431,085	31,166,851
Other.....	605,733	835,506
<b>Total Current Assets</b> .....	<b>55,878,615</b>	<b>56,581,891</b>
<b>MORTGAGE NOTE RECEIVABLE</b> , due in 1975.....	<b>883,800</b>	<b>883,800</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b> , at cost (Note F)		
Land.....	645,751	645,751
Buildings and property improvements.....	13,385,648	13,161,915
Machinery.....	12,943,673	12,500,503
General equipment.....	3,083,547	2,936,997
	30,058,619	29,245,166
Less accumulated depreciation.....	15,997,237	15,132,375
	14,061,382	14,112,791
<b>OTHER ASSETS</b> .....	<b>579,739</b>	<b>812,309</b>
<b>Total</b> .....	<b>\$71,403,536</b>	<b>\$72,390,791</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Notes payable (Note F).....	\$ 7,776,489	\$14,714,259
Accounts payable .....	5,327,999	5,343,741
Accrued liabilities .....	4,379,826	4,020,422
Income taxes (Note E).....	1,247,875	2,083,193
<b>Total Current Liabilities</b> .....	<b>18,732,189</b>	<b>26,161,615</b>
<b>RESERVE FOR PLANT RELOCATION</b> .....	<b>281,872</b>	<b>300,000</b>
<b>DEFERRED INCOME TAXES</b> (Note E).....	<b>1,206,191</b>	<b>963,040</b>
<b>LONG-TERM DEBT</b> (Note F).....	<b>17,521,652</b>	<b>11,956,835</b>
<b>MINORITY INTERESTS</b> .....	<b>2,457,503</b>	<b>2,346,673</b>
<b>STOCKHOLDERS' EQUITY</b> (Note G)		
Common stock, \$5 par value; authorized 2,000,000 shares, outstanding 1,015,178 shares.....	5,075,890	5,075,890
Paid-in surplus.....	2,355,041	2,355,041
Retained earnings.....	23,773,198	23,231,697
<b>Total Stockholders' Equity</b> .....	<b>31,204,129</b>	<b>30,662,628</b>
<b>Total</b> .....	<b>\$71,403,536</b>	<b>\$72,390,791</b>

The notes on pages 17 and 18 are an integral part hereof.

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	FISCAL YEAR ENDED	
	August 28, 1971	August 29, 1970
SOURCE OF FUNDS:		
Earnings before extraordinary credits.....	\$ 452,501	\$ 911,081
Extraordinary credits.....	89,000	74,875
Net earnings.....	<u>541,501</u>	<u>985,956</u>
Items not requiring current expenditure of funds:		
Depreciation .....	1,359,670	1,305,892
Deferral of income taxes, non-current.....	52,290	(166,509)
Minority interests.....	292,825	281,572
Net book value of Canadian property and plant sold (\$1,278,752) less non-current portion of mortgage note received.....		394,952
Reserve for plant relocation.....		300,000
Other.....		<u>33,839</u>
Funds provided from operations and extraordinary credits.....	<u>2,246,286</u>	<u>3,135,702</u>
Proceeds from issuance of long-term debt.....	6,000,000	369,176
Other.....	<u>441,354</u>	<u>(329,346)</u>
Total funds provided .....	<u>8,687,640</u>	<u>3,175,532</u>
USE OF FUNDS:		
Additions to property, plant and equipment.....	1,344,312	2,252,783
Reduction in long-term debt.....	435,183	668,500
Distributions to minority interests.....	181,995	188,942
Total funds used .....	<u>1,961,490</u>	<u>3,110,225</u>
Working capital increase.....	<u>\$6,726,150</u>	<u>\$ 65,307</u>

The notes on pages 17 and 18 are an integral part hereof.



## NOTES TO FINANCIAL STATEMENTS

- A. During fiscal 1971, the reporting entity was changed by including in consolidation foreign subsidiaries located outside the United States and Canada, which subsidiaries were previously carried at cost in the financial statements. The financial statements of prior years have been retroactively restated to reflect this change. Pronouncements of the accounting profession state that, absent special circumstances, consolidation of both foreign and domestic subsidiaries can be expected to present the most accurate picture of a company's total operation, and it appears that most companies in our industry issue their public reports on this basis. In view of these considerations and the fact that foreign operations constitute a significant part of Barber-Greene's overall operations, the aforementioned change was made.

At August 28, 1971 and August 29, 1970 and for the years then ended, the change resulted in the following amounts being included in the consolidated financial statements for foreign subsidiaries outside the United States and Canada:

	1971	1970
Net Assets .....	\$ 7,521,197	\$ 6,878,177
Working Capital .....	5,172,032	4,574,281
Net Sales .....	20,105,308	19,045,833
Net Earnings .....	365,508	392,427
Per Share Effect on Earnings ....	.36	.39

Minority interests in earnings of these subsidiaries were \$292,825 and \$281,572 in fiscal years 1971 and 1970, respectively. Dividends received were \$347,992 and \$270,203, respectively. Retained earnings at the beginning of fiscal 1971 and 1970 have been adjusted to give effect to the retroactive application of this change.

In addition, the financial statements for fiscal 1970 have been revised to conform with the classification in fiscal 1971 of trade notes receivable due beyond one year (See Note D) as current assets and to reflect sales net of distributors' discounts in accordance with industry practice.

- B. The consolidated financial statements include the accounts of the Company and all Subsidiaries other than a majority owned domestic company, the investment in which (\$254,824 at August 28,

1971) is carried at equity in net underlying assets and included in the balance sheets in other assets. Changes in its equity are recorded in other income. Accounts of foreign subsidiaries have been translated to United States dollars at appropriate current or historical rates of exchange. Fluctuations in exchange rates resulting from the decision of the United States Government to allow the dollar to float in international monetary exchange has not had a significant effect on the translation of foreign assets and liabilities.

- C. Subsequent to August 28, 1971, the Company, to conform with accounting principles predominate within its industry, requested and received permission from the Internal Revenue Service to change its method used to determine inventory cost on the majority of its inventories from the last-in, first-out method to the first-in, first-out method. The Internal Revenue Code requires that taxpayers using the last-in, first-out method for tax purposes also use the last-in, first-out cost method for financial reporting purposes, and the Company has complied with the requirement. Therefore, such change has not been reflected in the financial statements for fiscal 1971 and 1970. In accordance with Accounting Principles Board Opinion 20, recently issued by the American Institute of Certified Public Accountants, this change will be given retroactive effect in fiscal 1972's financial reports by the restatement of prior years' results.

Had such change been reflected retroactively, stockholders' equity would have further increased by approximately \$750,000 and \$680,000, respectively, in fiscal 1971 and 1970 and \$530,000 in prior fiscal years.

- D. Trade receivables include notes, principally from installment sales, of \$4,322,505 at August 28, 1971 and \$5,746,717 at August 29, 1970, of which \$1,455,279 and \$2,358,232, respectively, were due beyond one year.
- E. For income tax purposes, domestic companies defer income on installment sales and report it proportionately as payments are received and for major contracts accounted for on a percentage of completion basis, report income for tax purposes upon completion of the contract. Deferred income taxes of \$129,734 at August 28, 1971 and \$858,210 at August 29, 1970 relating

thereto are included in the current income tax liability.

Depreciation is generally computed on the basis of guideline lives and accelerated methods authorized by the respective governments while using the straight-line method for book purposes. The resultant deferral of taxes is included in deferred income taxes. Deferred income taxes also include investment credit of \$230,209 at August 28, 1971 and \$266,612 at August 29, 1970 which is being amortized over the useful lives of the related assets.

	August 28, 1971	August 29, 1970
<b>F. Long-term debt consists of:</b>		
Revolving domestic bank loan under agreement terminating March 31, 1974, interest at ½ % over prime rate .....	\$ 4,000,000	\$ 4,000,000
Domestic bank term loan under agreement terminating March 31, 1974, interest at ½ % over prime rate .....	6,000,000	
Foreign loans, principally bank overdrafts under credit agreements extending to November 30, 1972, interest presently at 6 to 8 % .....	2,547,633	2,799,206
6 ½ % subordinated debentures due November, 1986, convertible into common stock at the rate of one share for each \$19.25 principal amount of debentures .....	2,796,000	2,796,000
5.3 % note, payable \$250,000 semi-annually .....	2,750,000	3,250,000
	<u>18,093,633</u>	<u>12,845,206</u>
Less current maturities included in current notes payable .....	571,981	888,371
	<u>\$17,521,652</u>	<u>\$11,956,835</u>

The debenture agreement requires, commencing on November 1, 1972, annual redemptions of \$150,000 reduced at the election of the Company by the amount, if any, of debentures previously converted to common shares or redeemed or reacquired by the Company. At August 28, 1971, accumulated conversions of \$204,000 were available to defer sinking fund redemptions should the Company so elect.

Property, plant and equipment of certain foreign subsidiaries in the amount of \$2,466,000 are pledged as collateral for current notes payable of approximately \$630,000.

**G.** A total of 145,261 shares of common stock have been reserved for the conversion of the subordinated debentures.

The agreements relating to the long-term debt contain covenants which, among other things, restrict the payment of dividends and require the maintenance of net current assets at a specified amount. Under the most restrictive of the covenants, no retained earnings are available for the distribution of cash dividends.

**H.** Other income comprises principally licensee fees and financing income.

**I.** The consolidated effective income tax rates reflect the varying tax rates of the individual companies included in the consolidated financial statements, the levels of foreign taxes deemed paid, and investment credit amortization.

The provision for income taxes for fiscal 1971 and 1970 is comprised of:

	1971	1970
Currently Payable .....	\$ 956,000	\$1,242,000
Refundable .....	(447,000)	(449,000)
Deferred .....	(518,000)	81,000
	<u>\$ (9,000)</u>	<u>\$ 874,000</u>

**J.** The extraordinary credits arose principally from the sale in fiscal 1970 of the Canadian plant and the related tax effects.

**K.** Retirement benefits are provided to substantially all employees through Company sponsored retirement programs. The Company's policy is to fund pension costs accrued. The total pension expense, which includes amortization of prior service costs, principally over 40 years, amounted to \$494,892 in fiscal 1971 and \$503,528 in fiscal 1970. At the most recent actuarial valuation date, the retirement fund assets exceeded the actuarially computed value of vested benefits.

**L.** Earnings per share of common stock are based on the weighted average number (1,015,178) of shares outstanding during each year. Conversion of the subordinated debentures into 145,261 common shares would have had no dilutive effect on fiscal 1971 earnings, but would have reduced net earnings per share for fiscal 1970 to \$.93, after giving effect to elimination of interest, less related income tax.



## INDEPENDENT AUDITORS' REPORT

### TO THE STOCKHOLDERS OF BARBER-GREENE COMPANY

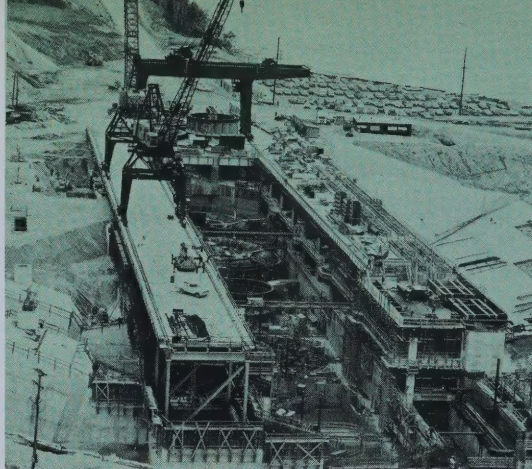
We have examined the consolidated balance sheet of BARBER-GREENE COMPANY and Subsidiaries as of August 28, 1971 and the related consolidated statements of earnings, retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination of the consolidated financial statements for the fiscal year ended August 29, 1970 which have been restated for the change in reporting entity resulting from the consolidation of previously unconsolidated foreign subsidiaries, as described in Note A to the financial statements. The financial statements of certain foreign subsidiaries, which reflect total assets and net sales constituting 25% and 24%, respectively in 1971 and 22% and 24%, respectively in 1970 of the related consolidated totals, were examined by other audi-

tors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such foreign subsidiaries, is based solely upon the reports of such auditors.

In our opinion, based upon our examination and the aforementioned reports of other auditors, the accompanying consolidated balance sheets and related consolidated statements of earnings, retained earnings and changes in financial position present fairly the consolidated financial position of Barber-Greene Company and Subsidiaries at August 28, 1971 and August 29, 1970, and the results of their operations and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

Aurora, Illinois  
November 22, 1971



Photos on the cover were taken at the Ludington Pumped Storage Power Plant, being built by Consumers Power Company and The Detroit Edison Company on the shore of Lake Michigan near Ludington, Michigan, where two Barber-Greene asphalt plants and two Excavators are working.

The plant, which will cost more than \$300 million, is larger than any pumped storage plant presently operating anywhere in the world. Scheduled for completion in 1973, it will be capable of generating up to 1,872,000 kilowatts of power.

Water will be pumped into an upper reservoir during "off-peak" hours when demand for electricity is low and released to fall through pump-turbines to generate electricity on its way back to the lake during hours of peak electrical demand.

The project is the first to use a large natural lake as a lower reservoir. The upper, or storage, reservoir will have an area of 1.3 square miles and hold about 27 billion gallons of water. It will be completely enclosed by an earthfill embankment approximately six miles long with an average height of 108 feet. The inner slope of the embankment will be paved with asphaltic concrete. Clay compacted to a depth of five to eight feet will provide an impervious bottom for the reservoir.

The asphalt batch plant, shown working at night to provide paving material for the embankment, is one of two identical Barber-Greene plants at the project. Both are equipped with surge storage silos for fast load-out and surge capacity to meet peak requirements. The plants are producing 7,200 tons per day of the half million tons of mix that will be required.

Three miles away, two Barber-Greene Excavators are loading out clay at 20,000 to 30,000 yards per day each for construction of the impervious reservoir bottom. A total of about 8 million yards will be required.



**BARBER-GREENE**  
T.M.

*Anticipating Tomorrow*